C/SD B 11/7

5 November 1973

DC/SD

MEMORANDUM FOR THE RECORD

SUBJECT: Funding of Cognizant Equipment

REFERENCE: Memo for D/PP&B and D/L, fr D/OTS, dtd 5 Sep 73, File: DD/S&T #2810-73 (OL 3 5373), same subj.

1. The following individuals met this date to discuss current OL position relative to points raised in referent memorandum:

Mr.
Mr.
Mr.
Ms.
Mr. [redacted]

STAT

2. It was pointed out to OTS representatives that OL had appointed an in-house study group to look at all phases of PPA/PRA and their interface in the arena of Financial Property Accounting (FPA). The points raised in referent memorandum are:

Para 1a - (1) PPA/PRA relationship in the budget cycle.

Para 1b - (2) Reissue of property at no cost.

Para 1c - (3) Surcharge in development of standard pricing.

3. The elements of concern in developing procurement plans and the funding of such plans were examined. The equation of PRA with PPA, while valid in the past, has been negated by policy judgments over the past few years; i.e., direct fund cite for offshore procurements and, most recently, the Executive Director-Comptroller approved policy of budgeting for inventory change irrespective of inventory drawdowns. Budgeting for stock replacement and replenishment differs from introduction of new items into the system and the increase of inventory levels.

SUBJECT: Funding of Cognizant Equipment

The sum total of these categories would represent the total procurement program. It was pointed out that while approval of this concept of a single budget entry for procurement was not a fait compli, the OL study group was leaning towards recommending its adoption to proper authority.

4. It was recognized by all present that regulatory policy permits "no cost issue" of materiel to a particular FAN account provided the item(s) had been previously costed to the same FAN during the current fiscal year and subsequently returned to stock. At the present time there is no procedure whereby all turn-ins (allocation 61) for whatever reason are earmarked for future issue at no cost. There are several ways this can be accomplished, i.e.:

a. Establishment of a new, or incorporate into the present, Type II account the "holding" or "working stock" concept without materiel re-entry into the Type I system.

b. Create a "holding account" (allocation separate from 61) within the Type I system from which "no cost" issues could be made.

c. Establish a dollar credit which would accrue to OTS for turn-ins and applied against issue/reissue of allocation 61 materiel.

With the exception of 4a above, the other alternatives would prove costly in their implementation. However, this again will be treated by the OL study group with resultant recommendations rendered.

5. The last point, the application of a surcharge on allocation 61 materiel, centered around its necessity in connection with an allocated, captive stock. It was an accepted fact that a single "standard price" was necessary in the management of materiel inventories.

SUBJECT: Funding of Cognizant Equipment

6. It was the group consensus that an acceptable solution to the problem surrounding the present PPA/PRA concept would clear the way for equally acceptable solutions to the other attendant problems. It was agreed that OL would keep OTS apprised of study group developments on problem areas directly confronting OTS. In any case, an official response to referent memorandum would be forthcoming, presenting OL position subsequent to study group deliberations.

STAT

[redacted]

Deputy Chief, Supply Division, OL

cc: OTS
PMS/OL
B&FB/OL
O/PPB - [redacted]

STAT

PPA/PRA

TSD and OC do in fact budget two separate elements relative to allocations 61 and 26 respectively.

a. Inventory replacement/replenishment

b. Inventory increases/new items

1. To clarify the S&T memo para 1a, all monies are reflected in the PPA; however, only "inventory replacement/replenishment" are covered by PRA. This category (PRA) equates to FY property usage. On the other hand, "inventory increases/new items" reflect no anticipated usage during the budget year and, consequently, are not supported by PRA (Stock drawdown).

2. So long as we recognize the PRA/PPA procedure, it will be nearly impossible to separate the two for budget purposes. They are tightly interrelated in the materiel management phase of the logistics system (stock).

3. Procurement of materiel can be equal to or more or less than the usage rate of materiel during any given fiscal year. As a result, I am in favor of capitalizing all stock accounts and resorting to "Consumer Funding" for all materiel requirements. We would then be in a "Stock Fund" mode where the "fund" would be reimbursed in cash for all actions affecting stock transactions, and the commercial entity would be paid directly for his goods.

4. The "Stock Fund" principle dictates that a ceiling be established beyond which capitalized assets may not go. Additionally, each appropriate division within the "Fund" could be synonomous with appropriate cognizant allocations. For example, OTS (allocation 61) would be a division within the Agency "Stock Fund."

Notes
/G